

**RESPONSE TO
2021-2022 CIVIL GRAND JURY'S REPORT RE: INTERNAL AUDITS**

Following is the response of the Riverside County Board of Supervisors (BOS) and Executive Office (EO) to the findings and recommendations included in the above referenced Civil Grand Jury Report pursuant to California Penal Code §§ 933 and 933.05.

FINDINGS

Grand Jury Finding #1:

California Government Code Section 25250 requires counties to audit their departments every two-years. The ACO's use of "Follow-Up" and "Change of Department Head" audits to fulfill this legal requirement violates California law.

Supported by Facts 1.1 and 3.1

Response to Grand Jury Finding #1:

The respondents disagree wholly with the finding.

The BOS and EO disagree that the Auditor-Controller's Office (ACO) current practice violates California law. The *Peer Review Quality Assessment of Internal Audit Department of the Auditor-Controller Office of Riverside County, California March 9, 2022* (Peer Review Report) stated that the ACO's audit planning was sufficient to meet California Code 25250 (pg. 11). The BOS and CEO agree that the law should be referenced in a Board Policy.

Grand Jury Finding #2:

Professional Standard 1100 requires the Internal Audit Unit be independent. With the Internal Audit Unit included within the ACO's "Audits and Specialized Accounting Division," the Internal Audit Unit is not completely independent. Hence, the ACO is not complying with Standard 1100. Supported by Facts 1.1 and 3.1

Response to Grand Jury Finding #2:

The respondents disagree partially with the finding.

BOS and EO disagree that the Internal Audit Unit is not completely independent. The Peer Review Report states that "Auditor independence and objectivity are not compromised because the specialized accounting function does not audit the reports that they prepare" (pg. 9). However, it is agreed that the two units should be segregated if feasible.

Grand Jury Finding #3:

The County's internal audits are marginalized and, in many cases, just ignored. Supported by Facts 3.5, 3.6, 3.7, 3.8, and 3.9

Response to Grand Jury Finding #3:

The respondents disagree partially with the finding.

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Per Board Policy No. A-33, departments under the direction of BOS and EO are expected to work cooperatively with, and respond to, the ACO when audited, both during and post audit. The audit process is well documented and followed per the Peer Review Report. However, the report did recommend that the ACO should have more frequent communication with the members of the BOS and EO. These meetings have already commenced with EO. Additionally, EO has created a system in which the results of the audits are more widely shared and there is a greater level of follow-up with departments to make sure the recommendations are implemented. As an aside, and as noted in the Peer Review Report, audited departments may disagree with the audit findings, but that doesn't equate to a marginalization of the audit findings.

Grand Jury Finding #4:

The County's Internal Audit Unit members do not have the combined knowledge, skills and experience to perform their responsibilities as required by Standard 1210. Supported by Facts 2.2, 2.3, 2.4, 2.5, 2.6, 2.7, 2.8, 2.9, and 2.10

Response to Grand Jury Finding #4:

The respondents disagree wholly with the finding.

The Peer Review Report states that the Internal Audit staff are "capable, qualified, and perform high-quality work," and that the staff do maintain their continuing professional education. BOS and EO agree that members of the Internal Audit Unit should have both the necessary and appropriate training to perform their responsibilities and we are working with the ACO and Human Resources (HR) to create a program to incentivize continued education and training.

Grand Jury Finding #5:

The County consistently fails to rectify known limitations in its internal Audit Unit Supported by Facts 2.2, 2.3, 2.4, 2.5, 2.6, 2.7, 2.8, 2.9, and 2.10

Response to Grand Jury Finding #5:

The respondents disagree wholly with the finding.

The BOS and EO are respectful to not infringe on the authority or powers of the ACO, as an elected officer of the County. It is the responsibility of each department head to assess their staffing needs and make necessary budget requests. All budget and staffing requests are given appropriate consideration. The BOS and EO support departments working with the HR to identify the proper job descriptions and requirements for each classification for their respective departments. The EO has not made a recommendation of denial, nor has the BOS denied, a budget increase request by the ACO.

Grand Jury Finding #6:

The County's Internal Audit Unit members lack professional certifications and experience in critical areas, which in turn exposes the County to potential financial and operational risks. Supported by Facts 2.9, 2.10, 3.3, and 3.4

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Response to Grand Jury Finding #6:

The respondents disagree wholly with the finding.

The Peer Review Report states that the Internal Audit staff are "capable, qualified, and perform high-quality work," and that the staff do maintain their continuing professional education. The BOS and EO do agree that members of the Internal Audit Unit should have both the necessary and appropriate training to perform their responsibilities and we are working with the ACO and HR to create a program to incentivize continued education.

Grand Jury Finding #7:

The County's lack of an audit oversight committee has resulted in some high-risk areas missed by internal audits for several years.

Supported by Facts 1.4, 1.5, 2.9, 2.10, 3.3, 3.4, and 3.10

Response to Grand Jury Finding #7:

The respondents disagree wholly with the finding.

The Peer Review Report states, "The internal audits are adequately planned, scoped and assigned based on California mandates and effective allocation of audit resources." It goes on to state: "Audit engagements are documented in an audit plan and audit procedures are updated to reflect audit risks." In general conformance with standards and best practices, audits are adequately planned and managed. These practices "provide coverage for the assessment of governance, risk and control" (pg. 10).

Grand Jury Finding #8:

The County's internal audit reports do not provide the Board and Executive Office with (a) summary information about the seriousness of the findings, (b) likelihood of negative impacts to the County, or (c) how quickly corrections need to be made.

Supported by Fact 3.10

Response to Grand Jury Finding #8:

The respondents disagree partially with this finding.

Internal Audit reports identify risks, the seriousness of findings and the likelihood of negative impacts. However, the BOS and EO agree that audit reports should include classifications for the severity of control findings.

Grand Jury Finding #9:

The County's follow-up internal audit reports do not provide the Board and Executive Office with summary information on the status of departments implementing required correction actions.

Supported by Fact 3.11

Response to Grand Jury Finding #9:

The respondents disagree wholly with this finding.

Follow-up audits require departments to indicate whether a previous finding has been fully, partially, or not implemented. It also includes a description of the corrective action taken or pending and the estimated date of completion. A department's response is included in the follow-up report provided to the BOS. Board Policy No. A-33 provides that the department heads provide an adequate written response to recommendations made by the ACO in formally issued audit reports.

Grand Jury Finding #10:

The County lacks summary reports and a monitoring mechanism that provides the Board and Executive Office with the following types of reports:

- Bi-Annual Systemic Internal Audit Findings Reports
- Annual Risk Assessment and Management Plan
- Quarterly Internal Audit Status Reports
- Contract Monitoring Reports
- Countywide Risk Management Dashboard

Supported by Facts 1.2, 1.5, 3.8, 3.9, 3.11, 3.12, and 3.13

Response to Grand Jury Finding #10:

The respondents disagree partially with the finding.

The County has reports and systems in place that generally satisfy the Grand Jury's outline of recommended reports. However, the Peer Review Report stated that the monitoring process "could be improved with more frequent follow-ups to supplement the biennial audit schedule, and the implementation of audit software for continuous monitoring of transactions and internal controls." (Page 10)

Grand Jury Finding #11:

An internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility, including access to confidential records. The County's internal audit charter has not been updated in 39 years. The County's internal charter is outdated and does not comply with Standard 1010.

Supported by Fact 1.3

Response to Grand Jury Finding #11:

The respondents disagree partially with the finding.

The County's Internal Audit Charter established the delegation of authority and declared policy for internal audits which is still aligned with the relevant laws and professional accounting standards for the performance of internal audit functions. However, as with all policies,

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procedures and practices, the Internal Audit Charter should be reviewed on a regular basis and refreshed as necessary.

Grand Jury Finding #12:

Dysfunctional working relationships among County and department leaders significantly hinder the effectiveness of internal audits.

Supported by Facts 3.8, 3.9, 3.11, 3.12 and 3.13

Response to Grand Jury Finding #12:

The respondents disagree partially with the finding.

Departments under the direction of the BOS and EO are required to work cooperatively with the ACO when audited, both during and post audit. There are instances where a department may disagree in whole or in part with the scope of the audit and/or the findings of the audit, and those disagreements are communicated in the department's response. However, establishing and maintaining positive working relationships requires intentional effort. As noted in the Peer Review Report, the ACO should endeavor to have more frequent and constructive communication with the BOS, EO, and department heads.

RECOMMENDATIONS

Grand Jury Recommendation #1:

By January 1, 2024, the Board adopt a policy establishing an Audit Oversight Committee with membership drawn from the Board, Executive Office, ACO, Risk Management Steering Committee, private sector, and all five supervisor districts.

Based on Finding 7

Financial Impact – Minimal

Response to Grand Jury #1:

The recommendation has not yet been implemented, but will be implemented in the future (with qualifications).

The BOS and EO will review the structure of these types of committees in other jurisdictions as proposed by the Grand Jury and identify an appropriate Audit Oversight Committee composition and structure for the County of Riverside.

Implementation Date: January 1, 2024

Grand Jury Recommendation #2:

By January 1, 2024, the Board adopt a policy that requires internal audit plans to audit all departments every two-years with an emphasis on high-risk financial and operational topics.

Based on Findings 1, 5 and 7

Financial Impact – Minimal

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Response to Grand Jury Recommendation #2:

The recommendation has not yet been implemented, but will be implemented in the future.

California law and the Internal Audit Charter requires an audit of each department every two years, which is the practice of the ACO, as confirmed in the Peer Review Report. Both the Civil Grand Jury Report and the Peer Report emphasized attention be placed on high-risk financial operations. The BOS and EO will have this recommendation included into appropriate policy, procedure and practice as recommended by the ACO and Audit Oversight Committee.

Implementation Date: January 1, 2024

Grand Jury Recommendation #3:

By January 1, 2024, the Board adopt a policy that requires the ACO to conduct any internal or external audit at the discretion of the Board and/or Executive Office regardless if the topic appears on an annual approved audit plan or not.

Based on Finding 7, 8, 9, 10, and 11
Financial Impact Minimal

Response to Grand Jury Recommendation #3:

The recommendation has not yet been implemented, but will be implemented in the future.

The BOS and EO agree to have this recommendation included into appropriate policy, procedure and practice as recommended by the ACO and an Audit Oversight Committee.

Implementation Date: January 1, 2024

Grand Jury Recommendation #4:

By January 1, 2024, The Board adopt a policy that requires the ACO to have at least one internal auditor with a Certified Fraud Examiner and at least one internal auditor with expertise in Information Technology.

Based on Finding 4 and 6
Financial Impact – Moderate to Significant Depending on Implementation

Response to Grand Jury Recommendation #4:

The recommendation has not yet been implemented, but will be implemented in the future.

The EO will work with ACO and HR to create, fund and fill a position.

Implementation Date: January 1, 2024

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Grand Jury Recommendation #5:

By January 1, 2024, the Board adopt a policy that establishes procedures to resolve disputed internal audit findings between the ACO and department/agency directors.

Based on Findings 3, 5, 11, and 12

Financial Impact – Minimal

Response to Grand Jury Recommendation #5:

The recommendation has not yet been implemented, but will be implemented in the future.

The BOS and EO agree to have this recommendation included into the appropriate policy, procedure and practice as recommended by the ACO and an Audit Oversight Committee.

Implementation Date: January 1, 2024

Grand Jury Recommendation #6:

By January 1, 2024, the Board adopt a policy that requires the ACO to (a) indicate severity of the risks identified in internal audit reports, (b) the amount of time departments have to reduce or eliminate those risks, and (c) when follow-up internal audits will occur.

Based on Findings 3, 5, 8, and 9

Financial Impact – Minimal

Response to Grand Jury Recommendation #6:

The recommendation has not yet been implemented, but will be implemented in the future.

The BOS and EO agree to have this recommendation included into the appropriate policy, procedure and practice as recommended by the ACO and an Audit Oversight Committee.

Implementation Date: January 1, 2024

Grand Jury Recommendation #7:

By January 1, 2024, the Board adopt a policy that requires the ACO to include the status of departments implementing required corrective actions in its follow-up reports.

Based on Finding 9

Financial Impact – Minimal to Moderate

Response to Grand Jury Recommendation #7:

The recommendation has not yet been implemented, but will be implemented in the future.

The BOS and EO agree to have this recommendation included into the appropriate policy, procedure and practice as recommended by the ACO and an Audit Oversight Committee.

Implementation Date: January 1, 2024

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Grand Jury Recommendation #8:

By January 1, 2024, the Board adopt a policy that requires the ACO to provide them with the following types of reports:

- Bi-annual Systemic Internal Audit Findings Reports
 - Annual Risk Assessment and Management Plan
 - Quarterly Internal Audit Status Reports
 - Contract Monitoring Reports
 - Countywide Risk Management Dashboard
- Based on Findings 1, 3, 5, 7, 8, 9, 10, and 11

Response to Grand Jury Recommendation #8:

The recommendation has not yet been implemented, but will be implemented in the future.

The BOS and EO agree to have this recommendation included into the appropriate policy, procedure and practice as recommended by the ACO and an Audit Oversight Committee.

Implementation Date: January 1, 2024

Grand Jury Recommendation #9:

By January 1, 2024, the Board adopt a policy that requires internal audit findings be included in all department leaders' annual performance reviews.

Based on Findings 3, 5, 9, and 11
Financial Impact – Minimal to Moderate

Response to Grand Jury Recommendation #9:

The recommendation has not yet been implemented, but will be implemented in the future.

The BOS and EO agree to have this recommendation included into the appropriate policy, procedure and practice as recommended by the ACO and an Audit Oversight Committee.

Implementation Date: January 1, 2024

Grand Jury Recommendation #10:

By January 1, 2024, the Board adopt a policy that establishes a Countywide Risk Management Dashboard.

Based on Findings 3, 4, 6, 7, 8, 9, 10, and 11
Financial Impact – Minimal

Response to Grand Jury Recommendation #10:

The recommendation has not yet been implemented, but will be implemented in the future.

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The BOS and EO agree to have this recommendation included into the appropriate policy, procedure and practice as recommended by the ACO and an Audit Oversight Committee.

Implementation Date: January 1, 2024

Grand Jury Recommendation #11:

By January 1, 2024, the County evaluate the financial compensation it provides internal auditors working within the ACO and take the necessary steps to achieve the following:

- Competitive financial compensation packages for each internal audit job classification level.
- Enhanced compensation for internal auditors with a "Certified Internal Audit" certification.
- Enhanced compensation for internal auditors with additional professional certifications in Information Technology and fraud detection.
- Update Job Descriptions to include Enhanced compensation for Professional Certifications.

Based on Findings 4, 5, and 6

Financial Impact – Moderate to Significant Depending on Implementation

Response to Grand Jury Recommendation #11:

The recommendation has not yet been implemented, but will be implemented in the future.

The EO will work with ACO and HR to review and adjust, as necessary, compensation for internal auditors.

Implementation Date: January 1, 2024

Grand Jury Recommendation #12:

By July 1, 2023, the AO divide the Audits and Specialized Accounting Division into two divisions: (1) "Audits" Division and (2) "Specialized Accounting" Division.

Based on Finding 2

Financial Impact – Minimal

Response to Grand Jury Recommendation #12:

The recommendation requires further analysis.

The EO will work with the ACO to determine if the separation of the units into separate divisions is feasible.

Implementation Date: January 1, 2024

Grand Jury Recommendation #13:

By January 1, 2024, the Board adopt a policy that requires the ACO to review and update the internal audit charter to be in full compliance with the Standards.

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Based on Findings 2 and 12
Financial Impact – Minimal

Response to Grand Jury Recommendation #13:

The recommendation has not yet been implemented, but will be implemented in the future.

The BOS and EO agree to have this recommendation included into the appropriate policy, procedure and practice as recommended by the ACO and an Audit Oversight Committee.

Implementation Date: January 1, 2024